

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----002047 071629Z /47

O 071608Z SEP 78
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC IMMEDIATE 6516
INFO AMEMBASSY BUCHAREST IMMEDIATE
AMEMBASSY BUDAPEST IMMEDIATE
AMEMBASSY PRAGUE IMMEDIATE
AMEMBASSY BELGRADE IMMEDIATE
AMEMBASSY WARSAW IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 21429

EXDIS

E.O. 11652: GDS
TAGS: EAIR, XH
SUBJECT: SUSPENSION OF PAN AM SERVICES
REF: STATE 226048

SUMMARY: SUSPENSION OF PAN AMERICAN SERVICES TO MOSCOW WILL CLEARLY HAVE SOME ADVERSE EFFECT ON U.S. PRESTIGE. EVEN THOUGH THE SUSPENSION ALSO APPLIES THROUGHOUT EASTERN EUROPE (EXCEPT WARSAW), SOVIETS MAY BE INCLINED TO SEE THE MOVE AS RELATED TO CURRENT STATUS OF OUR BILATERAL RELATIONSHIP AND A RETROGRESSIVE STEP. AT THE SAME TIME, THEY MAY BE CONCERNED AT IMPACT OF SUSPENSION ON OTHER U.S. COMMERCIAL ACTIVITIES IN THE SOVIET UNION, A REACTION WHICH COULD EVEN WORK TO THE BENEFIT OF AMERICAN BUSINESS IF SOVIETS FEAR A MAJOR EXODUS OF US FIRMS. SOVIETS WILL BE ALSO SERIOUSLY CONCERNED ABOUT IMPLICATIONS FOR CONTINUED AEROFLOT SERVICE TO U.S. SUSPENSION OF SERVICES COULD HAVE MAJOR NEGATIVE IMPACT ON THE POST'S OWN OPERATIONS, IN TERMS OF PASSENGER TRAVEL.
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END SUMMARY.

1. SUSPENSION OF PAN AM SERVICES WILL UNQUESTIONABLY HAVE SOME NEGATIVE EFFECT UPON PRESTIGE OF UNITED STATES AS BEING SEEMINGLY UNABLE TO MAINTAIN SCHEDULED AIRLINE SERVICES WITH WHAT, IN TERMS OF US INTERESTS, CAN BE CONSIDERED AS ONE OF THE MOST IMPORTANT FOREIGN

CAPITALS. FROM THE ECONOMIC STANDPOINT, DESPITE THE COMMENTS OF PAN AM REPRESENTATIVE NELSON THAT PAN AM HAS EARNED TWO MILLION DOLLARS IN 1978 ON MOSCOW SERVICE AND COULD DO VERY WELL UP TO THE 1980 OLYMPIC GAMES, WE ARE IN NO POSITION TO SECOND GUESS THE AIRLINE'S OWN ACCOUNTANTS AS TO RELATIVE PROFIT MARGINS AND OPPORTUNITY COSTS. CERTAINLY THE PRACTICE OF AEROFLOT TO RESERVE VIRTUALLY ALL SOVIET ORIGIN TRAFFIC TO ITS OWN CARRIER HAS HAMPERED PAN AM'S OPERATIONS HERE, ALTHOUGH IRONICALLY IT MAY BE AEROFLOT THAT STANDS TO GAIN THE MOST IN ECONOMIC TERMS - AT LEAST IN THE SHORT RUN - FROM PAN AM'S DECISION TO SUSPEND OPERATIONS.

2. WE BELIEVE THAT SOVIETS MAY BE INCLINED TO VIEW THE SUSPENSION AS RELATED TO THE OVERALL CLIMATE OF BILATERAL RELATIONS, EVEN THOUGH PARALLEL ACTION IN OTHER EAST EUROPEAN CAPITALS WOULD CLEARLY PROVIDE EVIDENCE TO THE CONTRARY. THE POLITICAL IMPACT OF THE WITHDRAWAL OF PAN AM REGULAR SERVICES ON THE SOVIETS WOULD BE MITIGATED TO SOME EXTENT IF A REGULAR CHARTER SERVICE CONTINUED, BUT SOVIET PREFERENCE IS DECIDEDLY FOR REGULAR SERVICE, AND THE WITHDRAWAL OR TERMINATION OF PAN AMERICAN OFFICES AND STAFF IN MOSCOW COULD BE TAKEN BY THEM AS A NEGATIVE POLITICAL SIGNAL EVEN WHERE NONE WAS INTENDED. PARTICULARLY IN LIGHT OF CRAWFORD CASE AND OTHER INDICATIONS THAT AMERICAN BUSINESS COMMUNITY IS LOSING CONFIDENTIAL

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DENCE OR INTEREST IN USSR - A REACTION WHICH SOVIET DEEDS HAVE DONE MUCH TO PRODUCE - THE SOVIETS MAY BE CONCERNED THAT THE TERMINATION OF PAN AM'S OFFICES HERE WILL ENCOURAGE OTHER AMERICAN FIRMS TO FOLLOW SUIT OR DETER SOME WHO HAD BEEN PLANNING TO COME. WE THINK THAT THIS CONCERN IS A REALISTIC ONE.

3. SOVIET DISQUIETUDE ABOUT PAN AM'S SUSPENSION OF REGULAR SERVICES COULD HAVE WELCOME SHOCK EFFECT, OF COURSE, IF THERE IS ATTENDANT DECISION TO REASSURE AMERICAN COMPANIES THAT THEY ARE WELCOME AND THAT SOVIETS CONTINUE TO DESIRE AN ACTIVE COMMERCIAL RELATIONSHIP. THIS RECOGNITION MAY COME TOO LATE TO PERSUADE PAN AM TO COUNTERMAND ITS DECISION ON ECONOMIC GROUNDS, BUT IT COULD WORK TO THE BENEFIT OF OTHER U.S. FIRMS. NEVERTHELESS, WE BELIEVE THAT PAN AM'S DECISION WILL CAUSE OTHER AMERICAN COMPANIES TO REEVALUATE THE PROFITABILITY OF MAINTAINING AN OFFICE IN MOSCOW UNDER PRESENT AND FORESEEABLE CIRCUMSTANCES.

4. SOVIETS WILL BE CONCERNED ABOUT THE FUTURE OF BILATERAL CIVIL AIR RELATIONS AND PARTICULARLY THE STATUS OF

AEROFLOT IN THE UNITED STATES. WHILE STANDING TO GAIN
IN THE SHORT RUN FROM THE WITHDRAWAL OF PAN AM - UNLESS
FULLY COMPENSATED BY ADDITIONAL CHARTER FLIGHTS -
AEROFLOT AND THE MINISTRY OF CIVIL AVIATION WILL BE
ANXIOUS TO KNOW IF WE WILL CONTINUE TO ALLOW THE
SOVIET CARRIER TO SERVICE NEW YORK AND WASHINGTON.
CERTAINLY THEY WILL HAVE NO REASON TO EXPECT THAT WE WOULD
PERMIT ANY EXPANSION OF PRESENT NUMBER OF FREQUENCIES; IN
FACT, UNLESS PAN AM AND OTHER AMERICAN AIRLINES ARE

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WILLING AND ABLE TO FLY A LARGE NUMBER OF CHARTERS,
THERE IS NO ECONOMIC REASON WHY WE SHOULD PERMIT AEROFLOT
TO CONTINUE EVEN ITS PRESENT LEVEL OF OPERATIONS INTO
THE U.S.

5. SUSPENSION OF PAN AM SERVICES IS LIKELY TO HAVE A
MAJOR IMPACT ON THE POST'S OWN OPERATIONS IN TERMS OF
PASSENGER TRAVEL BUT NOT POUCH OR AIRFREIGHT SERVICES.
PREVIOUS PERFORMANCE BY PAN AM LED US TO USE OTHER MEANS
FOR TRANSMITTAL OF POUCH AND CARGO, ALTHOUGH UNDER PRESENT
AGGRESSIVE LEADERSHIP OF PAN AM REPRESENTATIVE NELSON WE
HAVE RECENTLY AGREED TO LET PAN AM HANDLE SOME
EMBASSY POUCHES ON TRIAL BASIS. (A) MOST SIGNIFICANT
EFFECT IS THE EMBASSY WILL NO LONGER BE ABLE TO ISSUE
GTRS IN MOSCOW - WE WILL EITHER HAVE TO SEGMENT FARE BY
PAYING MOSCOW-WARSAW PORTION IN CASH AND ISSUING BLANK
GTRS FOR ONWARD TRAVEL; OR, PAY CASH FOR FULL FARES
(INCLUDING ROUNDTrip TRAVEL). (B) IF WARSAW BECOMES
OUR INTERCHANGE POINT, EVERY PASSENGER BETWEEN MOSCOW/

WASHINGTON WILL HAVE TO OBTAIN POLISH VISAS, CHANGE PLAN
PLANES IN WARSAW AND NEW YORK (AND VICE VERSA). IF
DELAYS ARE EXPERIENCED BETWEEN FLIGHTS, TRAVELERS WILL
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HAVE TO BE ALLOWED TO TAKE "REST STOP" TIME AT DESTINATION
(PER DEPT'S 1977 A-5195), SINCE TRAVEL TIME WILL EXCEED
14 HOURS. (C) IF FRANKFURT REMAINS THE INTERCHANGE
POINT, MOST TRAVELERS WILL HAVE TO OVERNIGHT ON THE WAY
IN OR OUT, OR FLY AEROFLOT (NOT A POPULAR CHOICE).
(D) ABOUT ONE-THIRD OF MOSCOW'S EMPLOYEES USE PAN AM'S
APEX FARES TO SPEND R&R IN THE U.S. ANY SUSPENSION OF
PAN AM SERVICE FROM MOSCOW WILL AFFECT THIS OPTION. TOON

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